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SUBJECT: LUNCH WITH AN OLIGARCH: SARGSIAN ALLY CRITICIZES  
GOAM APPROACH TO ECONOMIC CRISIS

Classified By: CDA Joseph Pennington, reasons 1.4(b,d)

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SUMMARY  
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¶1. (C) In an extended discussion with DCM on March 20, Armenian oligarch Mikhail Bagdasarov -- a close ally and personal friend of President Sargsian -- strongly criticized the GOAM for its handling of the economic crisis, questioned the Prime Minister's competence, and expressed enthusiastic support for Armenian-Turkish reconciliation. On domestic politics, Bagdasarov predicted a "difficult" win for the ruling Republican Party candidate in the upcoming Yerevan mayoral race, and said that National Assembly Speaker Hovik Abrahamian would likely be Armenia's next prime minister and next president. He lamented Armenia's inability to tackle its endemic corruption, and dismissed most cabinet ministers as amateurs who require "on-the-job training." Bagdasarov expressed contempt for the Armenian diaspora -- particularly in the United States -- which he accused of "false nationalism" and undermining Armenia's national interests. He portrayed President Sargsian as a man with few close friends who makes decisions on his own. Bagdasarov added that the President does not take advice on political matters, even from the few people he trusts. End Summary.

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MIKHAIL BAGDASAROV: A SERZH LOYALIST  
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¶2. (C) In a conversation over lunch on March 20 that lasted nearly four hours, Armenian oligarch and Presidential friend Mikhail Bagdasarov spoke candidly about a range of issues including Armenia's handling of the economic crisis, the competence of senior officials including the Prime Minister, Turkish-Armenian relations, the Armenian diaspora and the genocide issue, and the character and decision-making style of President Sargsian.

¶3. (C) Bio Notes: Bagdasarov is a "Baku Armenian" who left Azerbaijan on the eve of the Karabakh conflict. Like many Armenians who grew up in Azerbaijan, he speaks fluent Russian but virtually no Armenian. Since leaving Azerbaijan, Bagdasarov has accumulated enormous wealth through a variety of business interests in Armenia and Russia. He is the owner of Armavia, Armenia's national airline, as well as the S-7 airline in Russia. Bagdasarov is one of several oligarchs involved in the profitable fuel import business: he owns the Mika company, both a wholesale and retail seller of gasoline, oil, and petroleum products, and one of his companies is the exclusive provider of jet fuel to Yerevan's Zvartnots airport. He also owns one of Armenia's largest cement-producing companies, which has turned handsome profits during the country's recent construction boom. Bagdasarov and his businesses are believed to have benefited significantly from his longstanding and close personal ties to President Serzh Sargsian. He is regarded as one of the few oligarchs on whom the President can rely for unconditional support. Unlike many Armenian oligarchs,

Bagdasarov has a relatively benign reputation among ordinary Armenians. Bagdasarov spends much of his time in Moscow, where his family lives and his children go to school. He has preserved the Russified variant of his last name -- Bagdasarov, rather than Bagdasarian -- a legacy of "Baku Armenian" roots and strong ties to Russia.

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PM A THINKER, NOT A MANAGER  
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¶4. (C) Bagdasarov discussed at length his strong disapproval of the GOAM approach toward the current economic crisis. He argued that by pumping resources (from the IMF, the World Bank, and Russia) into Armenian banks, the Government is "doing what it knows how to do rather than what needs to be done." Bagdasarov contended that the GOAM should be pouring money into badly-needed infrastructure projects to stimulate the economy, create jobs for citizens returning unemployed from Russia, and modernize the country's transportation network. He castigated the GOAM's stubborn defense of the Armenian dram, which then was allowed to fall steeply (about 20 percent) in a single day on March 3. Bagdasarov claimed that the devaluation, while inevitable, was mismanaged in a way that inflicted maximum pain on the Armenian people and severe political damage on the authorities. (Comment: Although many in Armenia would agree with Bagdasarov's criticism on this point, we understand it was the President -- not the Government or the Central Bank -- who was primarily responsible for the decision to defend the dram. End comment.)

YEREVAN 00000241 002 OF 004

¶5. (C) While expressing admiration for Prime Minister Tigran Sargsian's intellect and commitment to badly needed reform, Bagdasarov was scathing about Sargsian's performance as prime minister. Describing the PM as "a thinker, but not a manager," Bagdasarov argued that Sargsian's rightful place would be as a policy advisor in the President's office. He claimed that Sargsian had squandered whatever authority he had as PM by mismanaging his relationships within the Government and with the National Assembly. Bagdasarov said the PM has been inept in managing the competing interests and personalities that can make or break the reforms he is trying to implement. Bagdasarov also branded the PM as a poor communicator, saying he "only knows how to speak the language of bankers." He argued that Sargsian's Central Bank career was an ivory tower, and that the PM lacks practical experience in how to get things done in the real world. Bagdasarov criticized the PM for his repeated public assertions that the worldwide economic crisis would have little or no impact on Armenia.

¶6. (C) When asked who would have been a better choice as PM, Bagdasarov chose Energy Minister Movsisian, whom he described as a smart and a capable manager who understood the need to "keep people happy" by reaching short-term compromises that defer infighting on important issues. (Comment: We regard Movsisian, the half-brother of Armenia's Ambassador in Washington, as a savvy operator who has been a good partner for USG assistance and a steady reformer on energy issues. Bagdasarov's observation is not without merit. End comment.) He added that he had told the President last June that Tigran Sargsian was the wrong choice as PM, but the President failed to take his advice. Asked whether the PM still has the full backing of President Sargsian, Bagdasarov smiled: "I think he knows now that I was right, but he still can't admit it."

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SPEAKER ABRAHAMIAN ON THE RISE  
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¶7. (C) In Bagdasarov's view, Tigran Sargsian's ineffectiveness as prime minister has accelerated the political rise of Hovik Abrahamian, the current Speaker of

the National Assembly. When Armenia's power players -- oligarchs, politicians, ministers -- have disagreements or want to get something done, he said, they now ignore the PM and come to Abrahamian. Bagdasarov claimed that Abrahamian won the loyalty and gratitude of members of parliament shortly after his appointment as Speaker by allowing all MPs to hire a paid professional staffer -- a move that had been proposed to, and rejected by, PM Sargsian. He noted that Abrahamian now orchestrates the question-and-answer sessions the PM must hold in the National Assembly in a way that puts the PM in the most unfavorable light possible, openly encouraging MPs to criticize -- and even ridicule -- PM Sargsian.

18. (C) While Bagdasarov would not be drawn out on his own views of Abrahamian, he warned that the Speaker "should not be underestimated." He claimed that through his effective deal-making, behind-the-scenes problem-solving, and image as an honest broker, Abrahamian had formed a virtual "shadow government" within parliament, thereby marginalizing the PM and other ministers. This task was made easier, he contended, by the fact that most ministers in the GOAM are "amateurs" who require "on-the-job training." He predicted that Abrahamian would become Armenia's next prime minister (though he did not view the current PM's demise as imminent) and, ultimately, the country's next President. When DCM noted that the President's position may not be open for another nine years (assuming President Sargsian is reelected), Bagdasarov said he did not rule out the possibility that Abrahamian could find a way to push the current President aside and run for President himself in 2013.

19. (C) Bagdasarov argued that Abrahamian -- who has served as a governor, a minister, and now as speaker -- has methodically built a national base of support, and has cleverly balanced his loyalties with former President Kocharian, his first patron, and current President Sargsian. He also revealed that through the upcoming marriage of his son, Abrahamian will become an in-law to Prosperous Armenia leader and mega-oligarch Gagik Tsarukian, thereby securing his ties to another major power player on the Armenian political scene. (Comment: Abrahamian is regarded by outside observers -- and many Armenians -- as an unpolished, poorly educated and parochial figure, a crass nouveau riche whose brand of dirty-money politics, abuse of state "administrative resources," and cunning opportunism is in the worst tradition of recent Armenian politics. Nevertheless, we agree with Bagdasarov that he should not be underestimated. Many of our contacts laughed when the rumor first surfaced that

YEREVAN 00000241 003 OF 004

Abrahamian would be named to the Speaker's position. No one is laughing now. End comment.)

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YEREVAN MAYOR'S RACE TO BE "DIFFICULT"  
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10. (C) Bagdasarov also claimed that Abrahamian strongly supported President Sargsian's decision to oust the mayor of Yerevan in favor of Gagik Beglarian, the controversial community head of Yerevan's Kentron district after he was already tapped by President Sargsian to head the Republican Party list in the upcoming mayoral election. Assuming Beglarian wins what Bagdasarov acknowledged will be a "difficult" campaign against former President Levon Ter-Petrossian, Beglarian will be indebted to Abrahamian and likely to use his powerful office to further Abrahamian's own political ambitions in the future.

11. (C) Asked to predict the outcome of the mayoral race, Bagdasarov rolled his eyes and laughed: "it will be tough, but Beglarian will win as long as Tigran (the PM) doesn't do something else stupid." He asserted that many of the President's supporters had urged him not to nominate

Beglarian, but that the President had made his decision based on the expectation that the opposition would be led by LTP. (Comment: This seems far-fetched, as none of our opposition contacts expected LTP to run, and LTP associates have told us privately that it was a last-minute decision. End comment.) Beglarian, according to Bagdasarov, is the only Republican who can "stand up" to LTP in what is expected to be a brutal political struggle.

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THE "FALSE PATRIOTS" OF THE DIASPORA  
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¶12. (C) Bagdasarov was enthusiastic about the potential for Turkish-Armenian reconciliation and the possible opening of the border with Turkey. He made clear that President Sargsian shares this view. As a businessman who relies heavily on imports, Bagdasarov noted that both the cost of inputs and transportation expenses would decrease significantly with a Turkey option. He claimed that most -- but not necessarily all -- of Armenia's oligarchs also support a border opening.

¶13. (C) Interestingly, Bagdasarov also expressed contempt for Armenian Diaspora groups, describing them as "false patriots" who "only know how to repeat the word genocide." "When it's time to come here and do something to help Armenia," he said, "these people are nowhere to be found." He singled out the Armenian-American Diaspora for special criticism, accusing U.S.-based Armenian organizations of undermining Armenia's national interests. Bagdasarov said there are Armenian-Americans who have Armenia's interests at heart, but asserted that "they are not represented by these groups."

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SERZH SARGSIAN -- A LONE WOLF  
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¶14. (C) Bagdasarov thought long and hard when asked who among the President's inner circle had real influence on his major decisions. When pressed, he said that Sargsian "doesn't want to hear advice" on political matters. Recounting that he had himself offered advice concerning the Prime Minister's fitness for his position, Bagdasarov laughed that "I would never do that again." He added that when he criticized the Prime Minister in a newspaper interview, he was immediately called by the President and asked to "correct" his statement. Bagdasarov said that while Misha Minasian, the President's advisor and son-in-law, could at least offer the President advice, there was no one willing to tell the President when he was wrong.

¶15. (C) Bagdasarov described Sargsian as a lone wolf, with few close friends or attachments. The President has a number of trusted colleagues from his Karabakh War days, he said, but even they had only infrequent access to Sargsian. "He moves from one group of acquaintances to another," Bagdasarov said, "without spending too much time with any one group." But when it comes time to make decisions, "the President decides on his own."

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COMMENT  
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¶16. (C) Bagdasarov has known President Sargsian for decades and sees him frequently, so his description of the President's character and leadership style are undoubtedly

YEREVAN 00000241 004 OF 004

accurate. He is also refreshingly candid about Armenia's (and the Government's) shortcomings -- saying at one point in the conversation, for example, that Armenia had much to learn from Georgia about how to overcome its endemic corruption (a heretical view in the Armenian establishment). Although he is careful not to criticize the President directly, there was

plenty of implication in what he said to surmise that all has not gone according to plan during the President's first year in office. Bagdasarov's assessment of the domestic political scene is largely consistent with what we have heard from other interlocutors, though he provided more and credible detail on the reasons behind the apparent rise of Abrahamian.

¶17. (C) As a major businessman with one foot in Russia and the other in Armenia, Bagdasarov understands better than most the growing implications of the accelerating economic downturn in both countries. He is extremely pessimistic about Armenia's short and medium-term economic prospects. Bagdasarov's surprising view that President Sargsian may not make it to a second term suggests he thinks the economic problems could also spill into the political arena at some point.

PENNINGTON